PERAC AUDIT REPORT

Arlington Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2013

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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July 31, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Arlington Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Arlington Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Ryan and Susan Kerr who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2013	2012	2011
Net Assets Available For Benefits:			
Cash	$430,723	$464,028	$277,432
Short Term Investments	3,297,329	9,707,259	3,622,795
Pooled Alternative Investment Funds	4,777,828	5,006,891	5,205,122
PRIT Cash Fund	0	0	0
PRIT Core Fund	121,439,430	102,541,960	100,115,121
Interest Due and Accrued	152	1,218	439
Accounts Receivable	181	800	0
Total	$129,945,643	$117,722,156	$109,220,909
Fund Balances:			
Annuity Savings Fund	$29,941,905	$28,752,445	$27,897,121
Annuity Reserve Fund	11,987,153	12,159,893	12,369,344
Pension Fund	417,718	0	0
Military Service Fund	15,651	15,636	15,620
Expense Fund	0	0	0
Pension Reserve Fund	87,583,216	76,794,182	68,938,824
Total	$129,945,643	$117,722,156	$109,220,909

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	$27,830,034	$12,261,662	$0	$15,589	$0	$73,978,013	$114,085,298
Receipts	2,958,545	370,017	8,908,132	31	823,239	(31,444)	13,028,519
Interfund Transfers	(1,883,660)	1,895,388	4,996,018	0	0	(5,007,745)	0
Disbursements	(1,007,797)	(2,157,723)	(13,904,150)	0	(823,239)	0	(17,892,908)
Ending Balance (2011)	27,897,121	12,369,344	0	15,620	0	68,938,824	109,220,909
Receipts	3,111,234	367,932	9,802,623	16	858,233	12,608,722	26,748,760
Interfund Transfers	(1,690,750)	1,690,480	4,753,634	0	0	(4,753,364)	0
Disbursements	(565,160)	(2,267,863)	(14,556,258)	0	(858,233)	0	(18,247,513)
Ending Balance (2012)	28,752,445	12,159,893	(0)	15,636	0	76,794,182	117,722,156
Receipts	3,405,276	358,871	10,209,542	16	973,908	15,765,592	30,713,204
Interfund Transfers	(1,876,658)	1,876,635	4,976,580	0	0	(4,976,558)	0
Disbursements	(339,158)	(2,408,247)	(14,768,404)	0	(973,908)	0	(18,489,717)
Ending Balance (2013)	$29,941,905	$11,987,153	$417,718	$15,651	$0	$87,583,216	$129,945,643

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2013	2012	2011
Annuity Savings Fund:			
Members Deductions	$2,995,918	$2,822,995	$2,608,494
Transfers from Other Systems	265,201	168,294	199,694
Member Make Up Payments and Re-deposits	54,241	52,278	86,095
Member Payments from Rollovers	55,729	34,386	3,111
Investment Income Credited to Member Accounts	34,186	33,280	61,151
Sub Total	3,405,276	3,111,234	2,958,545
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	358,871	367,932	370,017
Sub Total	358,871	367,932	370,017
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	437,624	343,749	248,891
Received from Commonwealth for COLA and Survivor Benefits	368,400	594,030	210,222
Pension Fund Appropriation	9,396,735	8,864,844	8,441,969
Settlement of Workers' Compensation Claims	5,000	0	7,050
Recovery of 91A Overearnings	1,783	0	0
Sub Total	10,209,542	9,802,623	8,908,132
Military Service Fund:			
Investment Income Credited to the Military Service Fund	16	16	31
Sub Total	16	16	31
Expense Fund:			
Investment Income Credited to the Expense Fund	973,908	858,233	823,239
Sub Total	973,908	858,233	823,239
Pension Reserve Fund:			
Federal Grant Reimbursement	37,435	44,482	51,613
Interest Not Refunded	164	2,336	577
Miscellaneous Income	1,783	0	0
Excess Investment Income (Loss)	15,727,993	12,561,903	(83,633)
Sub Total (Loss)	15,765,592	12,608,722	(31,444)
Total Receipts, Net	$30,713,204	$26,748,760	$13,028,519

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
Annuity Savings Fund:			
Refunds to Members	$213,219	$167,077	$296,801
Transfers to Other Systems	125,939	398,083	710,995
Sub Total	339,158	565,160	1,007,797
Annuity Reserve Fund:			
Annuities Paid	2,341,816	2,267,863	2,157,723
Option B Refunds	66,431	0	0
Sub Total	2,408,247	2,267,863	2,157,723
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	9,910,308	9,884,954	9,520,485
Survivorship Payments	775,090	716,681	681,119
Ordinary Disability Payments	188,036	142,541	139,364
Accidental Disability Payments	2,672,495	2,675,429	2,626,124
Accidental Death Payments	443,866	381,693	403,068
Section 101 Benefits	225,802	217,500	184,924
3 (8) (c) Reimbursements to Other Systems	426,730	428,821	249,180
State Reimbursable COLA's Paid	126,076	108,639	99,886
Sub Total	14,768,404	14,556,258	13,904,150
Expense Fund:			
Board Member Stipend	21,750	18,000	18,000
Salaries	148,874	139,661	131,101
Legal Expenses	3,901	4,578	2,668
Medical Expenses	426	566	372
Travel Expenses	2,070	5,309	3,345
Administrative Expenses	39,957	40,264	39,473
Actuarial Services	18,800	12,700	17,050
Education and Training	1,770	2,103	3,058
Furniture and Equipment	681	298	1,121
Management Fees	690,138	593,226	565,692
Custodial Fees	13,908	12,159	12,000
Consultant Fees	17,250	15,000	15,000
Service Contracts	4,730	4,730	5,030
Fiduciary Insurance	9,653	9,639	9,330
Sub Total	973,908	858,233	823,239
Total Disbursements	$18,489,717	$18,247,513	$17,892,908

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2013	2012	2011
Investment Income Received From:			
Cash	$41	$97	$129
Short Term Investments	4,825	8,860	5,093
Equities-Securities Litigation Income	5,910	15,999	4,713
Total Investment Income	10,776	24,957	9,935
Plus:			
Unrealized Gains	20,686,590	19,001,499	14,051,754
Interest Due and Accrued - Current Year	152	1,218	439
Sub Total	20,686,742	19,002,717	14,052,193
Less:			
Unrealized Loss	(3,601,326)	(5,205,870)	(12,890,812)
Interest Due and Accrued - Prior Year	(1,218)	(439)	(513)
Sub Total	(3,602,543)	(5,206,309)	(12,891,324)
Net Investment Income	17,094,975	13,821,365	1,170,804
Income Required:			
Annuity Savings Fund	34,186	33,280	61,151
Annuity Reserve Fund	358,871	367,932	370,017
Military Service Fund	16	16	31
Expense Fund	973,908	858,233	823,239
Total Income Required	1,366,981	1,259,461	1,254,437
Net Investment Income	17,094,975	13,821,365	1,170,804
Less: Total Income Required	1,366,981	1,259,461	1,254,437
Excess Income (Loss) To The Pension Reserve Fund	$15,727,993	$12,561,903	($83,633)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2013	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$430,723	0.3%
Short Term Investments	3,297,329	2.5%
Pooled Alternative Investment Funds	4,777,828	3.7%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	121,439,430	93.5%
Grand Total	$129,945,310	100.0%

For the year ending December 31, 2013, the rate of return for the investments of the Arlington Retirement System was 14.79%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Arlington Retirement System averaged 11.23%. For the twenty-nine-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Arlington Retirement System was 8.57%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the twenty-nine-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Arlington Retirement System has more than ninety per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to Short Term investments and holdings of Pooled Alternative Investments could not be abrogated and remain under the care and custody of the Arlington Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address: http://www.mass.gov/perac/investsup/Arlingtonintsup.html

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Arlington Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $797.64 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $797.64 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of $100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair market value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Arlington Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:
March 12, 2013
All permanent employees who are employed by the Town of Arlington, Arlington Public Schools, Arlington Housing Authority or the Arlington Retirement Board and employed at an annual rate of regular compensation of $5,000 or greater and work a minimum of Eighteen and Three Quarters Hours (18.75) hours per week shall be eligible for membership in the Arlington Contributory Retirement System ("System").

Elected Officials and Appointed Board Members who are paid at least $5,000 per year in regular compensation are eligible for membership, but are not required to satisfy the 18.75 hour per week minimum criteria.

Traffic Supervisors who are employed in a permanent position consisting of working both a morning and afternoon shift and are employed at an annual rate regular compensation of $5,000.00 or greater shall be eligible for membership in the system.

Creditable Service:
March 12, 2013
Any member who meets the membership criteria shall receive full creditable service.

A member whose hours are involuntarily reduced below 18.75 shall continue to receive full creditable service.

In the case of school employees whose position does not require them to work while the schools are closed from approximately June to September said employees shall receive one (1) month of creditable service for each full month the employee is receiving regular compensation. Said employees shall be granted creditable service if they return to that position or another position in the schools by the opening of school in the following September. They shall be granted service only for the months worked if they do not return after summer break.

Buyback:
Upon becoming a member of the Arlington Contributory Retirement System the said member may purchase non-membership time if the position paid an annual rate regular compensation of $5,000 or greater and the calculation for the creditable service will be based on 1 month for every 75 hours worked. Creditable Service will only be granted in full months.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Regular Compensation:
March 21, 2000
Regular Compensation shall include:

- Base annual salary.
- Longevity pay.
- Cost of living adjustments.
- Educational incentives.
- Night and shift differentials.
- Holiday pay for public safety positions.
- Salary paid for temporary promotions (working out of grade).
- The portion of a deferred pay raise that is considered regular compensation (applies to employees as previously provided by Town Meeting votes).
- Salary paid from federal grants which would otherwise be regular compensation.

Regular deductions for retirement shall be made from regular compensation.

Regular compensation shall not include:

- Overtime pay.
- Payment for unused sick leave.
- Payment for unused vacation in a lump sum at the time of retirement.
- Payment for unused personal days in a lump sum at the time of retirement.
- Bonuses
- Any payment received solely as a result of giving notice of retirement.
- Auto allowance paid in a lump sum(s) not in the form of a reimbursement.
- Clothing allowance paid in a lump sum(s) not in the form of a reimbursement.
- Tool allowance paid in a lump sum(s) not in the form of a reimbursement.

This supplemental rule further defines regular compensation and is consistent with the provisions of G.L. c. 32 and the Commission's regulations.

Miscellaneous:
May 1, 2013:
The Arlington Retirement Board has adopted for new members effective May 1, 2013 G.L. 32 § 13(1)(c) requiring a member entitled to receive a retirement allowance to designate a financial institution to which shall be directly deposited any payments under any annuity, pension or retirement allowance.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Re-title of Fire and Police Signal Operators
October 18, 2002
Any member holding the title "Communication Dispatcher" with the job description supplied replace the positions of "fire or police signal operators", as stated in Chapter 32, § 3(2)(g) Group 2.

Non-elected Board Members:
July 2, 2002
Non-elected board members who are compensated will be granted membership in the Arlington Contributory Retirement System. If a Board member's salary is $2,500.00 annually or less, he/she shall be credited with one year of creditable service for every five years served. If a Board Member's annual salary is more than $2,500.00, he/she shall be eligible for one year of creditable service for each year served. Board members who serve less than a full year will be eligible for proportional credit based upon the number of months served less than a year.

Elections:
January 30, 2002
The Arlington Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated in conformance with 840 CMR 7.04 on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no elections shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each member of or retired from the Arlington Retirement Board shall be allowed to vote for not more than two candidates. Upon tabulation of the ballots, the two candidates who receive the most votes shall be declared the elected members of the Board. In the event of a vacancy, a new election shall be conducted to fill a vacancy as soon as practicable and the member elected shall serve for the unexpired portion of the vacant term

Travel Regulations:
September 27, 2002
The Arlington Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website http://www.mass.gov/perac/Arlington.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Ruth Lewis		
Appointed Member:	Richard Keshian, Esq.	Until a successor is appointed	
Elected Member:	John J. Bilafer Chairman	Term Expires:	07/31/2017
Elected Member:	Kenneth Hughes	Term Expires:	07/31/2017
Appointed Member:	Ken Steele	Term Expires:	01/31/2015

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $50,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2014.

The actuarial liability for active members was	$91,897,852
The actuarial liability for vested terminated members was	1,580,240
The actuarial liability for non-vested terminated members was	
The actuarial liability for retired members was	156,933,756
The total actuarial liability was	$250,411,848
System assets as of that date were	123,494,772
The unfunded actuarial liability was	$126,917,076
The ratio of system's assets to total actuarial liability was	49.3%
As of that date the total covered employee payroll was	$31,803,519

The normal cost for employees on that date was	9.1% of payroll
The normal cost for the employer was	5.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.50% per annum
Rate of Salary Increase:	Select and Ultimate (4.0% ultimate rate)

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	$123,494,772	$250,411,848	$126,917,076	49.3%	$31,803,519	399.1%
1/1/2013	$116,431,256	$236,967,360	$120,536,104	49.1%	$30,010,325	401.6%
1/1/2012	$111,307,229	$229,785,491	$118,478,262	48.4%	$28,610,518	414.1%
1/1/2011	$121,402,896	$222,496,005	$101,093,109	54.6%	$28,636,632	353.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement in Past Years										
Superannuation	16	12	25	16	25	20	21	21	15	22
Ordinary Disability	2	1	1	0	0	1	0	0	1	2
Accidental Disability	0	1	4	4	3	4	2	3	1	3
Total Retirements	18	14	30	20	28	25	23	24	17	27
Total Retirees, Beneficiaries and Survivors	628	615	623	647	659	656	632	639	637	626
Total Active Members	748	685	712	713	699	694	678	692	682	769
Pension Payments										
Superannuation	$7,384,173	$7,430,373	$7,812,323	$7,973,842	$8,347,153	$8,766,817	$9,198,169	$9,520,485	$9,884,954	$9,910,308
Survivor/Beneficiary Payments	574,894	598,146	606,734	637,375	665,708	644,875	657,454	681,119	716,681	775,090
Ordinary Disability	85,546	95,468	167,334	145,874	141,773	151,412	143,892	139,364	142,541	188,036
Accidental Disability	2,094,517	2,168,914	2,448,660	2,450,339	2,404,012	2,592,650	2,672,187	2,626,124	2,675,429	2,672,495
Other	648,109	749,734	644,065	750,875	844,841	855,524	787,021	937,058	1,136,653	1,222,474
Total Payments for Year	$10,787,239	$11,042,635	$11,679,116	$11,958,305	$12,403,487	$13,011,277	$13,458,723	$13,904,150	$14,556,258	$14,768,404

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS

Chapter 88 of the Acts of 2004 allowed the Town of Arlington to establish a Group Insurance Liability Fund to pay premium costs and claim costs on behalf of retired town employees and eligible spouses and dependents. Section 2(b) states that the fund shall be subject to PERAC's triennial audit.

The most recent actuarial valuation of the Town of Arlington's Group Insurance Liability Fund was prepared by Stone Consulting, Inc. as of January 1, 2012.

The actuarial liability for active members was	$75,177,056
The actuarial liability for retired members was	98,885,496
The total actuarial liability was	$174,062,552
System assets as of that date were	4,263,204
The unfunded actuarial liability was	$169,799,348
The ratio of system's assets to total actuarial liability was	2.45%

GASB DISCLOSURE INFORMATION
AS OF JANUARY 1, 2012

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2012	$4,263,204	$174,062,552	$169,799,348	2.45%	$56,390,000	301.1%
1/1/2011	$3,818,000	$166,284,000	$162,466,000	2.30%	$56,420,000	288.0%
1/1/2009	$2,550,000	$167,297,000	$164,747,000	1.52%	$54,207,000	303.9%

NOTES TO FINANCIAL STATEMENTS (Continued)

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount calculated in accordance with GASB 45. The ARC represents the amount that is projected to cover each year's normal cost and amortize the unfunded liability over a period not to exceed 30 years.

Net OPEB Obligation (NOO)

Year Ending 6/30	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost a+b+c (d)	Annual Contribution (e)	Net Increase in NOO d-e (f)	NOO as of following Date (g)
2009	$12,728,760	N/A	N/A	$12,728,760	$8,761,821	$3,966,939	$3,966,939
2010	$14,076,124	$178,512	$161,074	$14,415,710	$7,735,362	$6,680,348	$10,325,139
2011	$14,910,833	$464,631	$431,760	$15,807,224	$8,393,826	$7,413,398	$16,875,018
2012	$14,630,220	$750,938	$723,372	$16,104,530	$7,938,699	$8,165,831	$23,594,104
2013	$17,304,029	$990,952	$1,015,142	$19,310,123	$6,779,020	$12,531,103	$34,094,924
2014	$18,436,384	$1,431,987	$1,518,920	$21,387,291	$6,831,782	$14,555,509	$45,612,593

Other Required Information

Actuarial Cost Method	Projected Unit Credit
Amortization Method	3.25% Increasing
Remaining Amortization Period	26 years (as of 1/1/2012)
Asset Valuation	Market Value

Actuarial Assumptions

Investment Rate of Return	4.20%
Inflation Rate	3.25%

Plan Membership

Actives	1,049
Retirees, Beneficiaries, and Dependents	1,128
Total	2,177

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